

2021 HOUSE INDUSTRY, BUSINESS AND LABOR

HCR 3024

2021 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HCR 3024
2/8/2021

Consider studying the feasibility & desirability of regulating special purpose depository institutions for cryptocurrency.

(10:58) Chairman Lefor calls the hearing to order.

Representatives	Attendance
Chairman Lefor	P
Vice Chairman Keiser	P
Rep Hagert	P
Rep Jim Kasper	P
Rep Scott Louser	P
Rep Nehring	P
Rep O'Brien	P
Rep Ostlie	P
Rep Ruby	P
Rep Schauer	P
Rep Stemen	P
Rep Thomas	P
Rep Adams	P
Rep P Anderson	P

Discussion Topics:

- Immutable ledgers technology.

Rep Toman opened the hearing.

Blair Thorson~Representing the Blockchain Industry. Testified in support.

Jason Bohrer-President-Lignite Energy Council testified in support.

William Pete~CEO Energy Ledger. Attachment #5795.

Trent Pool~Policy Director-Blockchain Center Foundation. Attachment #5789.

Lise Kruse~ND Dept of Financial Institutions. Attachment #5752.

Chairman Lefor closes the hearing. Rep D Ruby requested that the bill be held.

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Additional written testimony #5787, 5793, 5797, 5800, 5804, 5807, 5809, 5811, 5813, 5818 & 5820.

(11:18) End time.

Ellen LeTang, Committee Clerk

NORTH DAKOTA BAKKEN SHALE

William Pete - Testimony

FinTech Sandbox Opportunity

2/7/2021

My name is William Pete and I have been a blockchain researcher and tech enthusiast for years. I recently graduated with my Masters in Business Administration from Capella University in Minnesota. I also had the honor of NASA JPL naming an asteroid after me - 22786 Willipete. I have a patent for a blockchain technology in the oil and gas industry and have worked for close to 3 years on building a tech platform that seeks to allow an alternative use for crude oil as a store of value on a blockchain. This strategy offers a unique approach for my company Energy Ledger Inc. which seeks to provide a public blockchain for transparent energy transactions on the blockchain. This approach is incredibly important to the financial future of North Dakota and would allow the development of a banking and financial technology hub - extending Minnesota's already existing 'Silicon Prairie' westward. I am confident that there is a promising future for North Dakota's local economy within the technology space. Through providing a 'Blockchain Corridor' as outlined in this recent legislature - I believe that there is a chance that this area grows prolifically as a haven for technologies such as Blockchain to develop in tandem with established industries such as Oil & Gas.

There are a plethora of blockchain data companies including Energy Ledger, Data Gumbo, and Ondiflo which are building solutions utilizing this technology. The benefit of being next to abundant oil reserves and infrastructure is one of the most important factors for these companies to be able to implement cost savings, raise bottom lines, and ultimately bringing more value to the oil & gas industry through the commoditization of data. Through data acting as a commodity in and of itself - the highest value possible can be positioned on these commodities and their existence in storage for generations to come.

Almost every major oil & gas company has joined the Blockchain for Energy Coalition (<https://www.blockchainforenergy.net/>), including Chevron, Exxon, Shell, ConocoPhillips, and Equinor - with a \$6 million dollar investment from Equinor being made in blockchain company

Data Gumbo. Through North Dakota opening it's doors to startups in the Energy Industry through an 800K investment in a FinTech sandbox - it is possible to attract companies like mine and others to headquarter in North Dakota. This will herald a new era in the Bakken Shale formation's history where tech startups with lasting longevity will lay down roots in this area in attempt to market the data generated from drilling operations and geological surveys. Many of these companies will spend their money here, build new infrastructure, and hire talent from other areas to move to the area.

I personally believe that there is also a larger scope than just Energy companies who may be interested in this region as well. Many blockchain and cryptocurrency startups will be looking for a location that provides clear guidance, opportunity, and regulatory structure for their startup. Growing up in the midwest I have become well acquainted with the challenges and more than often - the shortcomings of not being able to attract the right talent to a certain area. With respect to Blockchain - I can confidently say if **House Bill 1268 & Concurrent Resolution 3024** are passed within the state of North Dakota, there will be an almost definite influx of technologies companies looking to headquarter their operations and do business here.

Trent Pool
Blockchain Center Foundation
Policy Director
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HB 1268

Blockchain Technology is one of the greatest advancements since the internet and distributed immutable ledgers will be the standard backend for commerce in the future and all things dealing with custodian ship or transfer of title – including contracts will be at some point in the future done with Blockchain technology. It is imperative that North Dakotans begins the process of encouraging technology and innovation in general- joining its neighbor Wyoming which has begun the Crypto Corridor which has brought over 20B dollars to the state of Wyoming and thousands of companies since the legislature began passing these bills in 2018.

As someone who has spent my whole professional career in politics after graduating from SMU in TX with a Geology degree I can tell you that the implications for the technology are vast. There is so much that can be done with this technology other than financial technology!! We can build voting infrastructure, can allow electronic signatures for petitions to be validated through Blockchain technology and can also store and harbor voting tech as well as provide a lot of the government database and custodianship/clearinghouse needs that are currently done with less secure and less efficient systems. North Dakota also has the cheapest electricity in the USA- it would be great to see the lignite energy council and other energy stakeholders explore mining of Bitcoin with abatements for companies that do.

The Blockchain Center in New York has been educating folks around the World since 2013 and is available 24/7 to suit any educational needs you guys may need. We would love to help empower you to fully understand this tech so that North Dakotans are well poised for innovations and the future of technology.

HB 3024

Crypto Banking is a great way to get investments immediately in the State of North Dakota. The Digital Asset Class is over 1 Trillion dollars with many of these folks looking for places to harbor their resources and repatriate their money back into the USA. Passing bills and running studies like this will lead to passing laws like Wyoming which now has has brought the Special Purpose Depository Institution Banking bill that has brought many multi-billion dollar firms into Cheyenne to begin non-commercial fully reserved lending in the state. I strongly encourage this study and hope that North Dakota passes this resolution unanimously and gets involved in protecting Digital Asset ownership and allows for Crypto Banking.

Sincerely,
Trent Pool



MEMORANDUM

DATE: February 8, 2021

TO: House Industry, Business and Labor Committee

FROM: Lise Kruse, Commissioner

SUBJECT: Testimony Regarding House Concurrent Resolution No. 3024

Chairman Lefor and members of the House Industry, Business and Labor Committee, thank you for the opportunity to testify regarding House Concurrent Resolution No. 3024.

Mr. Chairman and members of the Committee, our Department is neutral on this resolution; however, since we are the chartering agency of any bank or financial institution, I would like to take this opportunity to provide information about special purpose depository institutions since it is an area we are studying and monitoring closely.

In 2019 the state of Wyoming authorized the chartering of special purpose depository institutions (SPDIs). It is the only such charter in the nation; however, the federal government is also looking at this option. These institutions are considered banks that receive deposits and also conduct fiduciary asset

management, custody and related activities. It is expected that these institutions will focus on digital assets, such as virtual currencies. Where a SPDI differs from a trust company is that they take customer deposits. Where they differ from a traditional bank, is that these deposits are not required to be FDIC insured since an SPDI is prohibited from making loans with customer deposits of regular currency.

What I found from my Wyoming counterpart is that they worked extensively over a 2-year period to write rules and create the proper regulatory and legal framework. Changes had to be made to Wyoming laws, specifically the law that prohibits chartering a bank without deposit insurance, and also Uniform Commercial Code Law clarifications. The estimated cost to establish the program was about \$1 million. They estimated a 20% increase in their budget and also four additional FTEs just to start. To date, their State Banking Board has approved two applicants, and have had 2 more apply. None of these entities have started operations, so the overall viability of the program and the charter have therefore not been fully proven. An examination program has been developed, and in the fall of 2021, training will be offered to regulators outside of Wyoming. Our Department's examiners, including myself, plan to attend training so that we can learn as much as possible and are fully informed about these new market entrants. This includes not only SDPIs but also the overlapping concept of crypto currency regulation as part of money transmission. As noted in prior testimony, we intend to introduce a model law money transmitter bill for your consideration in 2023.

The reason we are neutral to this study is that it does not necessarily determine any future action on behalf of our Department – we are monitoring the marketplace regardless of a study. We will continue to monitor the charters in Wyoming, observe the viability and engage with federal regulators. We will ensure our examiners are trained and up to date on any new technologies or products offered by our industries. As with any new financial product, if our Department finds that we should introduce or modernize regulation and licensing obligations to accommodate new products and to protect our citizens, or make sure products are available, we will do so when we believe the time is right.

Finally, I understand this resolution to be a study conducted by a legislative subcommittee, not the Department. If that is incorrect, if the intention was for the Department to lead this study and report back, we have not budgeted for this, and this resolution may need a fiscal note. If the intention is for the study to reside with a legislative subcommittee, we would be happy to assist in locating industry consultants for this study who have been involved with the creation of these types of charters. Also, if it is ultimately determined that the legislative body wants to move forward with a bill to create a digital asset charter, we would be happy to work with the bill authors to ensure the Department is able to fulfill any new mandates.

Mr. Chairman, thank you for the opportunity to provide this testimony. I would be happy to answer any questions the Committee may have.

CHRISTOPHER ALLEN**Decentralized Identity &
Blockchain Architect**

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February 7, 2021

TO: North Dakota Legislators & Staff:

My name is Christopher Allen, and I am the founder of Blockchain Commons, a blockchain infrastructure development and research organization. My past achievements include being co-author of SSL/TLS, the broadest deployed security standard in the world, and the basis upon which most Internet traffic moves securely. More recently I am Invited Expert to the W3C international standards organization working toward broader international standards around digital identity, digital civil liberties, and personal privacy. I am also co-author of the book “#SmartCustody” on the best practices for the care, maintenance, control, and protection of digital assets.

For the last few years I have been an advisor to the Wyoming Legislative Blockchain Task Force, and now this year to the new Wyoming Legislative Select Committee on Blockchain, Financial Technology, and Digital Innovation Technology. I am particular proud to have been a supporter of Wyoming's Special Purpose Depository Institutions (SPDI) legislation, and I later helped the Banking Commission define their digital asset custodial requirements. Due to these efforts, I am now a technical advisor to Avanti Bank, one of the first banks to be licensed under this higher standard.

I support the North Dakota legislature to pass HCR 3024 to research the feasibility for your state being able to offer a similar form of banking license, and to help establish regulations for how businesses should be treated that are using digital assets. There currently is no uniformity among the different states, and as there are some particular challenges to digital assets that make them different from stocks and other assets, that need to be addressed. So far, only Wyoming is meeting this challenge, but we need this nationwide.

Thank you for the opportunity to show my support for HCR 3024. Let me know if you need more details about my support or if there are other ways I can be of service to your community.

Regards,



Christopher Allen

Brock Pierce
Chairman- Bitcoin Foundation
brock@percival.vc

FB 1268

Good Afternoon North Dakota, I am both excited and grateful to be here with you.

I am Brock Pierce, from Minneapolis, Minnesota, born and raised. My mother was a minister and father worked in construction. I began my career early as a child-actor, making movies like The Mighty Ducks and First Kid. At 16, I believed the internet would change the world and that inspired me to become an entrepreneur.

I have co-founded, advised, and funded over 100 companies. In 2014 I put the U.S. dollar on the Blockchain when I co-founded Tether. Tether is the #1 most traded cryptocurrency with an annual trading volume of over \$10 Trillion.

As a technologist and innovator, I have created the first major marketplace for virtual goods in online gaming, which is expected to grow to \$190B by 2025. As a pioneer in Blockchain and digital currency, I was integral to the development of the first Initial Coin Offerings (ICO), providing a revolutionary way to fund and launch digital currencies. Additionally, as a founder of Blockchain Capital, I helped develop the STO, security token offering, to further secure investments in digital currency. Blockchain-based and digital currencies that I have co-founded include EOS, Stablecoin and Tether, the latter of which surpassed Bitcoin with a daily trading volume of over \$21 billion. My revolutionizing innovations in Blockchain technology and online gaming have led to the development of entirely new industries, resulting in the creation of new jobs, marketplaces and wealth for millions of Americans.

For the past five years, I have been Chairman of the Bitcoin Foundation - the largest and oldest digital asset education center in the world. On behalf of the foundation, I have been traveling the world for many years speaking on the transformative value blockchain technology.

It's Imperative that we recognize that the \$800,000 fiscal note is minuscule in comparisons to the benefits North Dakotans can obtain, both, in the short and long term.

I strongly believe that North Dakotans participating in the development & expansion of the blockchain industry which Wyoming has begun will build thousands of high paying jobs and generate tens of millions if not billions of dollars for the State of North Dakota. Which is why I am here to testify IN FAVOR of passing HB 1268.

First, From a national and global macroeconomic perspective, China is leading the world in digital asset engineering across many industries and the USA is falling behind. What is imperative is that individual states lead the effort. I strongly believe that North Dakota must be one of the states to both, ensure and sustain America's economic and technological preeminence.

Secondly, The Energy Sector is undergoing rapid changes to accommodate the increasing volume of consumption here in America and across the world. There is not place better to incorporate a fintech sandbox than the largest oil and gas reserves in USA. The merger of tech innovation and industry will enable America to be a steadfast leader in the digital age for decades to come.

The Blockchain technical corridor is already building and it is imperative that we join neighboring states in leading this effort. As someone who has amassed billions in capitol and created many businesses around the world, I can testify that an \$800,000 cost to the state may be nothing in comparison to the gains attained in relatively short time.

Thank you for the opportunity to address you, it's been a tremendous pleasure.

HCR 3024

Bitcoin has proven to be the top performing asset of the last decade and the best of 2020. Bitcoin has a market capitalization of 600B+ that places it in the list of top 10 of countries If it were its own country.

A tremendous number of large-scale companies are moving into the digital asset and cryptocurrency space - PayPal, JP Morgan, Starbucks. Through consortiums and the assistance of top tier corporate strategy consulting firms, such as the Boston Consulting Group, well-established FDIC-based banks are implementing blockchain technology.

I am in favor of HCR 3024 In support for a resolution studying special purpose depository institutions for cryptocurrency to encourage competition and financial innovation, controlling the risks and preventing them from affecting the end consumer. Fintech startups make progress in their processes, complying little by little with all regulations, until they finally reach the end of the road and transition out of this testing environment to compete with regular financial institutions, now without a safety net.

This resolution will enable the development of an appropriate sandbox, a mechanism for developing regulation that keeps up with the fast pace of innovation in a way that does not smother the fintech sector with rules, but also doesn't diminish consumer protection, for the State of North Dakota.

Sincerely,

Brock Pierce

Benjamin Tsai is the President & Managing Partner at Wave Financial, a California Registered Investment Advisor focused on blockchain and cryptocurrencies, with a focus on portfolio management and product development. Previously, Ben served as the Head of Alternative Investments Asia Pacific at AllianceBernstein for 3 years. His finance career started at Merrill Lynch, where he spent 12 years stationed in Tokyo, Hong Kong, and Singapore, running derivative products desks for both equity and fixed income, subsequently the commodities desk covering Asia. He grew up in Southern California, has a BS from UC Berkeley, MBA from UCLA, and is SEC registered.

Benjamin supports the resolution to increase spending in North Dakota to promote the creation of a sandbox to promote blockchain and crypto currency companies. Currently, major Asian financial institutions such as Mitsubishi Bank, Nomura Securities, DBS Bank (aka Development Bank of Singapore), are following Swiss institutions in adopting to both security token ecosystem for tokenization of assets, and crypto currencies for investments. This has led to an outflow of assets and talent internationally. It would be good to have more progressive states, like North Dakota, take on the role to develop a sandbox to cultivate the interest in this space. The resolution will hopefully drive interest back to the US and to North Dakota.

One critical component for institutional adoption is the custody solution. The second proposal, which Benjamin also supports, will explore the conditions around developing such solutions in North Dakota.

William Idrissi
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Testimony in Favor of HB 1268 & HCR 3024

My name is William, I am the CTO of Unifinity a education technology platform that uses Blockchain and crypto to incentivize learning, I run and I am the founder of loud bear creative studios in San Francisco, we are a growing incubator and creative center.

I am an AR/VR video game developer, and full stack software engineer

I think America and her governmental systems need to adopt blockchain technology because America is democratic in nature and democracy thrives when it's well-informed through transparency.

The Internet has been involving for quite some time now, blockchain is the next step and evolution. It should be used most prominently for items that are important in nature. recordkeeping which can drastically affect a persons life and criminal history is by far important enough to have verified on blockchain. Having a third-party, that cannot be corrupted witnessing these important updates or events is not only me beneficial, but could be viewed as necessary to uphold the ideals of supporting a fair journey through due process

When it comes to creating fertile grounds for entrepreneurship technology is by far a radical medium forward to these artist to florist within. Supporting a technology/blockchain Excelerator or incubator will allow the value derived from the scalability of technology, but also the direct economic value that blockchain will help manage, this ultimately will bring great attention and returns to whatever space can properly flourish it. There is a huge worldwide competition, to be the creators of the next digital frontier. America has always been at the forefront of innovation, if we keep our eye on the ball, and let North Dakota swing, we could hit a home run

Peter Borovykh
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Testimony in Favor of HB 1268 & HCR 3024

My name is Peter Borovykh, and I am a senior blockchain architect at a consulting firm BlockchainDriven based in New York, NY. Over the years I have been involved in a number of blockchain build outs for a variety of industries and spaces, including financial, healthcare, decentralized exchanges, national cryptocurrencies, etc. The latest use case I have been working on includes the healthcare space where the blockchain technology has been implemented to optimize the supply chain for single-use devices and literally help hospitals save more lives by operating with more wholesome information.

Blockchain technology helps to effectively solve the problem of double spending, and due to its nature of operating 24/7/365 the blockchain technology allows to offer a tremendous amount of value to the global population. Immutable and transparent record keeping enabled with the blockchain technology makes transactions trustworthy to all the users of that specific blockchain. Due to these and many more incredible features, blockchain technology is truly revolutionary for most fintech startups and companies looking to make a real difference to the status quo database management system, whether such database management systems have been implemented in the banking, healthcare, supply chain or government spaces.

I am writing to support the passage of HCR 3024, which will help the United States to join the blockchain revolution in the state of North Dakota. Such policies are much needed as the fight for blockchain deployment is a very tight one and the global arena has a tremendous amount of competition for innovation that North Dakota state and the U.S. as a nation must participate in.

My name is Max Infeld and I design tools to support community engagement in blockchain-based communities. I have been working for over ten years in community engagement through marketing, art and design, and the last three years integrating these techniques with various blockchain communities and technologies. I am focused on building tools that will add direct value to one's own actions within their community. The resources that are needed to build these advanced tools are scarce in the United States and we need safe places to build, test and iterate. We need a destination that is attractive and promising to the many minds capable of building with these technologies.

Intrinsic to blockchain technology, it perpetually grows value in communities. The architects of blockchain tech supports communities through devising more equitable forms of engagement. Communities that are activated have the potential to create their own stores of human capital as well as address their actual needs. This is achieved through direct and immediate consensus mechanisms. Giving communities the power of blockchain with accountable governance tools-- will bring them up, these communities will grow and retain their value. Supporting blockchain tech development encourages architects to build within their local communities-- with more independence and self-sustainable business practices. Providing clear incentives and a path to create better blockchain tools can lead to innovation. The network effect of blockchain is synergistic within one's own community, but will also import value from like minded supporters.

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Testimony in Favor of HV 1268 & HCR 3024

To Whom It May Concern,

I appreciate this opportunity to contribute to these proceedings about blockchain technology. My name is Richard, and I am resident of the Commonwealth of Massachusetts. My experience is primarily in software architecture. Like a few of my classmates at UC Berkeley, shortly after learning about blockchain I had dropped out of school to work in the industry. I didn't have money to invest, so I put my mind to it and sold my time as an engineer and researcher.

The core promise of blockchain is the great power, and great responsibility, of replacing middlemen with formulas. Going beyond blockchain's first (and "killer") app, money, the underlying meaning of the term "transaction" is changing a row in a database. Society's most important databases tend to be controlled by institutions that don't really need to compete for that control, and thus are not as incentivized to maximize their operational effectiveness. Barriers to entry often exist with good intentions at heart; in the interest of consumer protection, as it were, whoever has authority over sensitive information must be carefully vetted, regulated, and subject to oversight.

Unfortunately, power preservation and consumer protection are often found at odds, for it is next to impossible to put un-hackable people in charge of the processes that control how rows get to change in society's most important databases. It is possible, however (though exceedingly costly), to produce un-hackable software. With blockchains, security and consensus is an emergent property of the collaboration of thousands of participants in the network and not a function of a single authority. Statements made on a canonical blockchain (yes, there are many flavors) are permanently and irrevocably timestamped. As such they are, "now and forever, one and inseparable" from the rest of "truth" as it lives "on-chain".

Until the invention of bitcoin in 2008, security and decentralization seemed like contrary concepts. Contrary to popular misconception, blockchains are not unregulated. Rather, several aspects of the state of blockchain networks and the data they operate with are regulated by pre-meditated logical recipes called algorithms. Algorithmic regulation offers predictable, objective, and measurable outcomes. It provides certainty without law enforcement influence.

In 1970, Richard Nixon signed the Bank Secrecy Act, turning money infrastructure into a political tool to control who is able to send and receive value. This system of control breeds exclusion, and though it may not always be used despotically or oppressively, it is a public good which clearly serves its "owners" more than the public. The public finds

itself divorced financially from “liberty, and union”, seeking outlets like WallStreetBets to fill that gap.

With HB1268, the blockchain industry can establish North Dakota at the forefront of innovation in autonomous financial services. If self-driving cars are good for the environment, self-driving banks are good for the average person’s savings account. Teslas might catch fire, and decentralized finance will have bugs, but historically, innovation has always paid off in the long run because it has a neat way of aligning the incentives of everyone involved.

In the same way that the Internet made information easier to transport, blockchain technology helps make information easier to verify. Just like cellular telephones allowed billions to become connected with the world, entirely by-passing the need for fixed-line telephone infrastructure, blockchain infrastructure can do the same for sensitive information...without the carrier network monopolies.

Cordially,
Richard Tiutiu

HCR 3024

My name is Andrew Durgee, I am currently the Head of Blockchain at Republic and was a pioneer in multisignature security for blockchain back in 2011, 2012, and 2013. I have been actively involved in blockchain technology innovation for over a decade. Being the Head of Blockchain at Republic, I am in a unique position to help direct the industry as a whole with both technology development and government guidance. I am here to recommend the passing of HCR 3024 which provides additional support for the state of North Dakota to further explore the opportunities of Blockchain specifically in banking. North Dakota is in an incredibly unique position with The Bank of North Dakota, or BND, being the nation's only public bank. Thus by having a government-owned and operated entity that focused on public access rather than profit affords North Dakotans access where they may not have had otherwise. This is the essence of blockchain, access. Blockchain allows everyone to participate regardless of financial status, history, or jurisdiction. It seems that at its core North Dakota already believes in certain core principles of Blockchain thus making the passing of HCR 3024 essential.

HCR 3024

My name is Anton Glotser. I have been an entrepreneur for the past 20 years and for the last 4 years I have focused on building my company Delnorte, which specializes in digitizing real property and putting it on a distributed ledger block chain as well as securitize transaction. I am a big proponent of Government sponsored innovation and wanted to write today to recommend the passage of HCR 3024 which will allow for North Dakotans to explore distributed ledger blockchain based banking and crypto banking.

As North Dakota being one of the only states with a government run bank, you are in a unique position of being able to lead the nation by example through innovation. Distributed ledger blockchain technology adoption would give the State of North Dakota the most secure, transparent, equitable and democratic banking system in the nation.

The benefits of distributed ledger technology are as follows:

Transparency; most existing systems use proprietary data who's actions are hidden from the public view, which erodes trust and creates conspiracies. Distributor ledger technology acts in the public view, can be easily accessed and traced by everyone on the network, thus trust is created through transparency.

Decentralization; decentralized systems are more secure because there is no single point of attack that can be exploited by hackers.

Reduce cost of doing business; most of the fees involved with business transactions are due to various middleman and security check marks, distributed ledgers eliminate those fees because everyone has observer access to all transactions in real time.

A fintech sandbox like the one proposed in HCR 3024 will create thousands of high paying jobs. As the economy falters due to the pandemic, hundreds of thousands of young people are now shut out of the traditional workforce force, no longer will they be starting their job experience working at the local fast food joint. These youngsters are also most prone to adopt new technologies and ideas and create new businesses in this space. Passing this legislation HCR 3024 will attract talent from around the nation and possibly the world, to come, explore and innovate, and more importantly create new jobs and business opportunities and grow the economy.

I am Gordon Einstein, hybrid Crypto-Attorney, Technologist, and Enterprise Strategist. I received undergraduate degree in Politics in 1991 from Brandeis University in Boston and then received JD in 1995 from the USC Gould School of Law in Los Angeles.

Initially my law practice centered on startup, venture capital, investment banking, regulatory compliance, intellectual property and general business law. As an avid computer and programming hobbyist, in 2012 I was intrigued by Bitcoin, cryptocurrencies, and the related technologies. By 2014, I was providing legal services to several individuals and companies operating in this space. And by 2016 the majority of my law practice involved working with crypto, blockchain and FinTech startups and funds, including as Chief Legal Officer of Distributed Lab. The practice was formalized as CryptoLaw Partners in 2017.

I frequently speak and educate both in the United States and internationally. Some common themes are issues and developments relating to cryptocurrency, the legal aspects of FinTech, structuring blockchain startups, ICOs/STOs, and AML/KYC compliance.

I am in favor of the bill HCR 3024.

Sixty-seventh
Legislative Assembly
Of North Dakota

February 8, 2021

My name is Jason Desimone and I serve as Head of Blockchain for Ubik Group, where we develop high-profile blockchain projects and solutions for clients of all sizes, ranging from Fortune 500 enterprises to governmental agencies. Our client base spans the globe and includes the likes of the United Nations, Amazon, IBM, American Express, Coinbase, the Green Bank Network, the Ethereum Foundation, and more, and our areas of expertise include tokenization, digital identity, digital wallets and custody solutions, data sovereignty, security, decentralized exchanges, cross-border and micropayments, supply chain logistics, and distributed networks. Additionally, I launched the NYC Blockchain Center in 2019, which was the first public and private partnership (sponsored by NYCEDC alongside Microsoft and the Global Blockchain Business Council) aimed at creating a regulatory sandbox by gathering regulators and entrepreneurs to openly discuss how to reform New York's stringent laws around blockchain technology and support the burgeoning industry while educating blockchain enthusiasts throughout the state.

I am writing to you as a firm supporter of bill HB1268 put forth to the Legislative Assembly of North Dakota. Having worked alongside regulators in New York in regards to the establishment of a financial technology sandbox through the NYC Blockchain Center, I can attest to the widespread support and approval for such a program. The adoption of blockchain technology throughout the U.S. is inevitable, but in order for the industry to properly mature and ultimately reach its full potential, the constructive involvement of both state and federal government is paramount. In New York, overly stringent laws and regulations around blockchain technology stemming from the BitLicense have pushed innovation out of the ecosystem and stymied the adoption and development of this crucial technology. As a result, regulators are intent on correcting these mistakes by forming a financial technology sandbox where entrepreneurs can openly innovate, institutions and businesses can fully operate, and individuals can safely interact with blockchain technology and digital assets with well-defined laws under the proper guidance and support of local government. I applaud North Dakota's efforts to do the same and wholeheartedly believe that creating the right framework around the development of blockchain technology early on through a financial technology sandbox will ultimately lead to a thriving entrepreneurial ecosystem that is capable of attracting the best talent, creating local jobs, and establishing North Dakota amongst the leaders of this cutting-edge technology for years to come.

I also firmly support bill HCR 3024 and believe that regulating special purpose depository institutions for cryptocurrency is an integral step towards creating a safe and prosperous cryptocurrency and digital asset ecosystem throughout North Dakota. The

past four years has seen a precipitous rise in the use of cryptocurrency and digital assets as more and more capital has been flowing from the legacy markets directly into the crypto market, which has officially passed \$1 trillion in total market cap earlier this year. It is only a matter of time until the incumbent financial institutions merge entirely with this ever-evolving decentralized financial landscape, which is growing rapidly but still in its infancy. The ambiguity and lack of regulatory certainty around cryptocurrency users and businesses, however, is a massive impediment to the overall evolution of the space as it remains exceptionally difficult to navigate and innovate. I believe that the states and countries that develop the most progressive regulatory framework around cryptocurrency (including special purpose depository institutions) will find themselves extremely well positioned as financial and technological hubs of the future. The fact that North Dakota is actively taking steps to study the feasibility of regulating special purpose depository institutions for cryptocurrency is a testament to the state's open-mindedness and forward thinking attitude when it comes to establishing a solid backbone for what many believe to be the undeniable financial system of the future. Those institutions and states that resist will unfortunately be left behind.

2021 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HCR 3024
2/16/2021

Consider studying the feasibility & desirability of regulating special purpose depository institutions for cryptocurrency.

(10:24) Chairman Lefor called the hearing to order.

Representatives	Attendance
Chairman Lefor	P
Vice Chairman Keiser	P
Rep Hagert	P
Rep Jim Kasper	P
Rep Scott Louser	P
Rep Nehring	P
Rep O'Brien	P
Rep Ostlie	P
Rep Ruby	P
Rep Schauer	P
Rep Stemen	P
Rep Thomas	P
Rep Adams	P
Rep P Anderson	P

Discussion Topics:

- Committee work

Rep Toman explained amendments. Attachments #6753.

Rep Thomas moved the amendment 21.3064.01002.

Rep Hagert second.

Voice vote Motion carried.

Rep Thomas moved a Do Pass as Amended & placed on the consent calendar.

Stemen second.

Representatives	Vote
Chairman Lefor	Y
Vice Chairman Keiser	Y
Rep Hagert	Y
Rep Jim Kasper	Y
Rep Scott Louser	Y
Rep Nehring	Y
Rep O'Brien	Y
Rep Ostlie	Y
Rep Ruby	Y
Rep Schauer	Y
Rep Stemen	Y
Rep Thomas	Y
Rep Adams	Y
Rep P Anderson	Y

Vote roll call taken Motion carried 14-0-0 & Rep Hagert is the carrier.

(10:29) End time.

Ellen LeTang, Committee Clerk

PROPOSED AMENDMENTS TO HOUSE CONCURRENT RESOLUTION NO. 3024

Page 1, line 2, replace "for cryptocurrency" with "and regulating other entities engaged in virtual currency business activities"

Page 1, line 4, replace "also known as" with "including"

Page 1, line 4, remove "such as Bitcoin,"

Page 1, line 6, remove "cryptocurrency"

Page 1, line 6, after "businesses" insert "engaged in virtual currency activities"

Page 1, line 8, replace "overly restrictive" with "insufficient"

Page 1, line 9, replace "cryptocurrency" with "virtual currency business activities"

Page 1, line 12, replace "cryptocurrencies" with "virtual currency business activities"

Page 1, line 12, after the semicolon insert "and

WHEREAS, financial technologies, virtual currency, and virtual currency business activities can provide important applications and services in business sectors, such as energy and agriculture;"

Page 1, line 16, replace "for cryptocurrency" with "and regulating other entities engaged in virtual currency business activities"

Renumber accordingly

REPORT OF STANDING COMMITTEE

HCR 3024: Industry, Business and Labor Committee (Rep. Lefor, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE PLACED ON THE CONSENT CALENDAR** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HCR 3024 was placed on the Sixth order on the calendar.

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Renumber accordingly

21.3064.01002

Sixty-seventh
Legislative Assembly
of North Dakota

HOUSE CONCURRENT RESOLUTION NO. 3024

Introduced by

Representatives Toman, Mock

1 A concurrent resolution directing the Legislative Management to consider studying the feasibility
2 and desirability of regulating special purpose depository institutions ~~for cryptocurrency~~ and
3 regulating other entities engaged in virtual currency business activities.

4 **WHEREAS**, there exists no uniformity with respect to how businesses that deal in virtual
5 currencies, ~~also known as~~ including cryptocurrencies, ~~such as Bitcoin,~~ are treated among the
6 states; and

7 **WHEREAS**, there is a dual need to protect consumers while also promoting continued
8 innovation by not saddling ~~cryptocurrency~~ businesses engaged in virtual currency activities with
9 regulatory burdens that make it impractical to operate; and

10 **WHEREAS**, traditional money transmitter regulations are ~~overly restrictive~~ insufficient as
11 they relate to ~~cryptocurrency~~ virtual currency business activities; and

12 **WHEREAS**, special purpose depository institutions enable companies to offer banking
13 services for businesses unable to secure Federal Deposit Insurance Corporation-insured
14 banking services due to their dealings with ~~cryptocurrencies~~ virtual currency business activities;
15 and

16 **WHEREAS**, financial technologies, virtual currency, and virtual currency business activities
17 can provide important applications and services in business sectors, such as energy and
18 agriculture;

19 **NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF**
20 **NORTH DAKOTA, THE SENATE CONCURRING THEREIN:**

21 That the Legislative Management consider studying the feasibility and desirability of
22 regulating special purpose depository institutions ~~for cryptocurrency~~ and regulating other
23 entities engaged in virtual currency business activities; and

Sixty-seventh
Legislative Assembly

- 1 **BE IT FURTHER RESOLVED**, that the Legislative Management report its findings and
- 2 recommendations, together with any legislation required to implement the recommendations, to
- 3 the Sixty-eighth Legislative Assembly.

PROPOSED AMENDMENTS TO HOUSE CONCURRENT RESOLUTION NO. 3024

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Page 1, line 16, replace "for cryptocurrency" with "and regulating other entities engaged in virtual currency business activities"

Renumber accordingly

2021 SENATE INDUSTRY, BUSINESS AND LABOR

HCR 3024

2021 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Fort Union Room, State Capitol

HCR 3024
3/23/2021

A concurrent resolution directing the Legislative Management to consider studying the feasibility and desirability of regulating special purpose depository institutions and regulating other entities engaged in virtual currency business activities.

Chair Klein opened the meeting at 11:00 a.m. All members were present. Senators Klein, Larsen, Burckhard, Vedaa, Kreun, and Marcellais.

Discussion Topics:

- Depositories
- Krypto-Currency
- FINTech

Representative Nathan Toman introduced the bill [11:03].

Blair Thoreson, Block-chain Technology testified in favor of the bill [11:16].

Lise Cruse, Commissioner for the Department of Financial Institutions testified neutral and submitted testimony #10406 [11:19].

Karen Tyler, State Securities Commissioner testified neutral [11:31].

Chair Klein closed the hearing at 11:45 a.m.

Isabella Grotberg, Committee Clerk



MEMORANDUM

DATE: March 23, 2021

TO: Senate Industry, Business and Labor Committee

FROM: Lise Kruse, Commissioner

SUBJECT: Testimony Regarding House Concurrent Resolution No. 3024

Chairman Klein and members of the Senate Industry, Business and Labor Committee, thank you for the opportunity to testify regarding House Concurrent Resolution No. 3024.

Mr. Chairman and members of the Committee, our Department is neutral on this resolution since it is a study to be conducted by a legislative committee. However, since we are the chartering agency of banks and financial institutions, I would like to take this opportunity to provide information about special purpose depository institutions and to update you on what the Department is working on when it comes to virtual currency regulation. Virtual currency is currently not regulated in North Dakota, so there are no regulatory restrictions for utilization of the underlying blockchain technology – or the use of virtual currency, although some virtual currency money transmitters and exchanges are licensed with our department for other activities. I appreciate Rep. Toman's intention to make sure

North Dakota does not fall behind or in any way inhibit innovation, particularly when it comes to financial services and products. Our Department is always closely following the financial marketplace and are constantly looking for ways to make sure we are modernizing to allow for innovation and technology without compromising consumer confidence in the financial products they use.

In 2019 the state of Wyoming authorized the chartering of special purpose depository institutions (SPDI). It is the only such charter in the nation; however, the federal government is looking at similar options. These institutions are considered banks that receive deposits and also conduct fiduciary asset management, custody and related activities. It is expected that these institutions will focus on digital assets, such as virtual currencies. Where a SPDI differs from a trust company is that they take customer deposits. Where they differ from a traditional bank, is that these deposits are not required to be FDIC insured since a SPDI is prohibited from making loans with customer deposits of regular currency. When the FDIC was created in 1933, a much-needed confidence was infused into the banking system, since without FDIC insurance, the failure of a bank could result in financial losses for depositors. The SPDI charter does not appear to be intended for government-issued virtual currencies such as those issued by the Bahamas or China, or the considered Digital Euro or US based Fedcoin. On a federal level, the Office of the Comptroller of the Currency (OCC) has clarified banks' authority regarding stablecoins. If the federal government comes with further solutions, the Wyoming SPDI charter may become obsolete.

My Wyoming counterpart informed me that they worked extensively over a 2-year period to write rules and create the proper regulatory and legal framework for the SPDI charter. Changes had to be made to Wyoming laws, specifically the law that prohibits chartering a bank without deposit insurance and Uniform Commercial Code Law clarifications. The estimated cost to establish the program was about \$1 million. They estimated a 20% increase in their budget and four additional FTEs to start. Their State Banking Board has approved two applicants and have had two more apply. None of these entities have started operations, so the overall viability of the program and the charter has not been fully proven. Legislation for this type of charter has been introduced in a few other states, including South Dakota, but has not passed. Wyoming recently developed an examination program for this charter type, and in the fall of 2021, training will be offered to regulators outside of Wyoming. Our Department's examiners, including myself, plan to attend training so that we can learn as much as possible and are fully informed about these new market entrants. This includes not only SPDIs but also the overlapping concept of crypto currency regulation as part of money transmission.

I would like to highlight additional work we are doing in this area. Most states that regulate virtual currency have done so by recognizing virtual currency in the definition of currency and using existing regulatory frameworks such as money transmitter rules. Our Department has 140 money transmitters licensed. None of our money transmitters are headquartered in North Dakota, rather every company

we license operates in multiple states. For that reason, we are coordinating and cooperating with other states in our licensing and oversight. Our Department is actively engaged in what we on a national basis call “networked supervision” to provide efficiencies by leveraging our collective intelligence across the states and with federal regulators. Part of this effort is work on a model law for money transmitters, which we anticipate we will introduce in a bill for your consideration in 2023. This is a coordinated effort between all 50 states with input from the industries we regulate; a 33-member industry panel has provided feedback. By listening to the industry itself, I believe we can foster innovation and provide a good balance between regulation, consumer protection, and availability of services and products. The model law will replace our current money transmitter statute and has three primary objectives: 1) Consumer protection regulation; 2) Preserve public confidence; and 3) Prevention of unlawful individuals from entering the money services industry. The law contains licensure standards and financial responsibility requirements for money service businesses and includes the licensure of virtual currency. The law will provide clarity around when and how to regulate virtual currency businesses. For those conducting virtual currency activity, it includes transferring, storing and exchanging virtual currency. We do not expect the proposed law to regulate or otherwise inhibit the underlying blockchain technology or be burdensome for startup companies.

The reason we are neutral to this study is that it does not necessarily determine any future action on behalf of our Department – we are monitoring the

marketplace regardless of a study. We will continue to monitor the charters in Wyoming, observe the viability and engage with federal regulators. We will ensure our examiners are trained and up to date on any new technologies or products offered by our industries. As with any new financial product, if our Department finds that we should introduce or modernize regulation and licensing obligations to accommodate new products and to protect our citizens, or make sure products are available, we will do so when we believe the time is right.

Finally, I understand this resolution to be a study conducted by a legislative subcommittee, not the Department. If that is incorrect, if the intention was for the Department to lead this study and report back, we have not budgeted for this, and this resolution may need a fiscal note. If the intention is for the study to reside with a legislative subcommittee, we would be happy to assist in locating industry consultants who have been involved with the creation of these types of charters. Also, if it is ultimately determined that the legislative body wants to move forward with a bill to create an entirely new regulatory regime for a digital asset charter in addition to the model money transmitter law previously discussed, we would be happy to work with the bill authors to ensure the Department is able to fulfill any new mandates.

Mr. Chairman, thank you for the opportunity to provide this testimony. I would be happy to answer any questions the Committee may have.

2021 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Fort Union Room, State Capitol

HCR 3024
3/24/2021

A resolution directing the Legislative Management to consider studying the feasibility and desirability of regulating special purpose depository institutions and regulating other entities engaged in virtual currency business activities.

9:28 AM **Senator Klein** opened the Committee Work on HCR 3024. All members were present. Senators Klein, Larsen, Burckhard, Vedaa, Kreun, and Marcellais.

Discussion Topics:

- More info needed to see how this would be used within the institution of ND.
- Need for parameters within the federal government.

Senator Klein said the resolution is asking for a study and there is no need for the committee to act on it at this time. The resolution may or may not be chosen by the Legislative Management committee for a study.

9:34 **Senator Klein** closed the Committee Work on HCR 3024 and adjourned the committee until Monday, March 29.

Isabella Grotberg, Committee Clerk

2021 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Fort Union Room, State Capitol

HCR 3024
3/30/2021

A concurrent resolution directing the Legislative Management to consider studying the feasibility and desirability of regulating special purpose depository institutions and regulating other entities engaged in virtual currency business activities.

Chair Klein opened the meeting at 9:08 a.m. All members were present. Senators Klein, Larsen, Burckhard, Vedaa, Kreun, and Marcellais.

Discussion Topics:

- Securities Agency
- Study in relation to financial securities

Senator Vedaa moved a do not pass [9:11].

Senator Kreun seconded the motion [9:11].

[9:11]

Senators	Vote
Senator Jerry Klein	Y
Senator Doug Larsen	N
Senator Randy A. Burckhard	Y
Senator Curt Kreun	Y
Senator Richard Marcellais	Y
Senator Shawn Vedaa	Y

Motion passed: 5-1-0

Senator Vedaa will carry the bill [9:12].

Chair Klein ended the meeting at 9:12 a.m.

Isabella Grotberg, Committee Clerk

REPORT OF STANDING COMMITTEE

HCR 3024, as engrossed: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO NOT PASS** (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed HCR 3024 was placed on the Fourteenth order on the calendar.